MAKANA LOCAL MUNICIPALITY

BUDGET REPORT 2012/13 TO 2014/15 (TABLING OF THE DRAFT BUDGET FOR APPROVAL 30TH MARCH 2012)

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1.1. EXECUTIVE SUMMARY AND CHALLENGES

The application of sound financial management principles for the compilation of Makana Municipality's budget is essential to ensure the financial viability and that municipal services are rendered sustainable, economical and equitable to all communities. Service delivery priorities were reviewed during strategic sessions that took place since January 2012, and these strategies are, as far as possible, incorporated in this draft budget.

Several challenges were identified during the process of compiling this budget.

1. Council currently collects on average 75% of the billed revenue. In order to provide services as expected by the citizens, this situation has to improve. Current arrears amount to more than R210m. At a meeting held during March 2012, a decision was taken that the Credit Control Policy will be enforced in an effort to reduce the loss of income through non-payment and other reasons such as illegal connections to the electricity and water network. This further result in Council having to provide for an increasing contribution to a bad debts provision, that leads to less funds available to spend on other service delivery items.
2. Ageing infrastructure still remains a problem and requires constant maintenance. It is also the cause of numerous water and electricity outages.
3. The ever increasing cost of bulk electricity, while the recovery rate from consumers are limited to a rate lower than that Council has to pay. Although the increase on the Bulk Purchases of Electricity is set at 13.5%, NERSA advised that the recovery must be maximised at 11%, thereby resulting in a loss on the sale of Electricity of approximately R2 517 173.
4. A critical need to fill vacancies with limited funds for salaries, equipment and office accommodation

5. Ever increasing needs exceeding resources, financial and otherwise, by a huge margin. Critical capital and operating requirements requested by departments had to be reduced drastically due to unaffordability.
6. Inability to restrict tariff increases to a level not exceeding the CPI.

The Revenue Budget of R314 843 071, up 6.09% from R296 781 040 for 2011/12, was largely based on the projected income for the current financial year, compared to the actual income for the previous financial year, while ensuring a budgeted surplus adequate to fund the own-funded projected capital expenditure.

The Operating Expenditure Budget for 2012/13 of R286 967 498 is down 3.31% from the R296 781 040 of 2011/12 to accommodate the own-funded capital expenditure of R27 867 000.

The total Capital Budget amounts to R140 851 010, up 15.47% from the original budget for 2011/2012 of R121 976 750.

I would like to thank the team that worked on this draft budget for long hours in a very short space of time for their combined efforts in an attempt to provide a credible product to Council.

CLR Z. PETER
EXECUTIVE MAYOR: MAKANA MUNICIPALITY

1.2. THE EXECUTIVE MAYOR'S BUDGET SPEECH

The separate document covering the Mayor's Budget Speech will be made available when tabling the draft budget to Council for approval and will also be loaded on the internet, and availed to Treasury as is required.

1.3. BUDGET PROCESS OVERVIEW

The annual budget process of a municipal council normally starts in August of each year with the approval of a budget timetable, and the process culminates in inputs obtained from the community being captured in the draft budget, which has to be approved by the end of March each year. The next step involves consultations being held with internal and external stakeholders to produce a credible, realistic and fully funded budget that has to be adopted by Council by the end of May each year. This budget also has to be aligned with the Integrated Development Plan (IDP), and this year it is no different as projects identified in the IDP is included in this draft budget. Over and above this, several regulations and circulars from National Treasury has to be conformed with during these processes.

This year there were certain delays as directorates were tasked to hold individual strategic sessions flowing from the institution-wide strategic session held in mid-January. The final inputs were provided in March, after considering the outcomes of the individual strategic sessions.

1.4. OPERATING REVENUE FRAMEWORK

In order to maintain the current level of services and to improve on it, revenue has to be generated. A large section of our community live in poverty due to a high rate of unemployment in the area. Our ageing infrastructure requires a high level of maintenance, and even higher costs to replace. There is a huge need to eradicate developmental backlogs – some residents still makes use of bucket sanitation. Roads are in desperate need of upgrading. Furthermore, the new

developments in our area also results in additional strain on our infrastructure such as Sewer, Water, Roads and Electricity networks. All this requires money, that is not freely available, to maintain and upgrade.

As a result Credit Control measures have to be enforced in an effort to collect what is due to Council. The value of efforts to promote revenue enhancement through Local Economic Development and Tourism is also often understated.

After considering these and other factors, the following increases in tariffs are proposed to fund the operations of Council during the 2012/13 financial year:

Rates	9 %
Electricity	11 %
Water	9 %
Refuse	9 %
Sewer	9 %
Other Income	9 %
Infrastructure Levy	3 % of revenue from above services

The proposed Infrastructure Levy, if approved, is intended to fund extensions to and maintenance of our infrastructure due to the increased demands placed on our infrastructure as a result of new developments within the Makana area of jurisdiction.

1.5. OPERATING EXPENDITURE FRAMEWORK

There is a desperate need in certain areas to fill vacant positions. As mentioned earlier, there is a desperate need to increase maintenance on our assets. Due to limited financial resources being available, unpopular decisions had to be made. Requests to increase maintenance had to be reduced. Requests to fill vacancies were put on hold to be reassessed during the process of preparing the final budget. Salary increases of 6% were budgeted for. Increases in expenditure

were largely based on previous year actual expenditure, as compared to actual expenditure projected for the current financial year, and allowing for increased/additional activities in the next financial year.

In an effort to be able to fund the own-funded capital requests from a budgeted surplus as is required, we were faced with a particular challenge by having to reduce operating expenditure compared to the 2011/12 financial year. This was done in accordance with past trends where the full budget was not spent. During the process of finalising the final budget, these attempts will have to be reviewed to ensure that the operating expenditure budget remains realistic and credible.

1.6. CAPITAL EXPENDITURE

Initial requests for Capital Expenditure to be funded from our own sources amounted to R71m. These are all considered to be desperately needed. Our vehicle fleet dates back to the 1980's in some cases, although numerous new vehicles were bought in recent years. Networks have to be upgraded and extended. New staff needs equipment and vehicles to perform their duties.

Once again certain unpopular decisions had to be made due to unaffordability. All requests for vehicles were removed to a next financial year, upgrades to networks were reduced and/or moved to outer years. Due to the fact that the filling of vacancies was put on hold, the budget for the purchase of equipment was also reduced substantially.

However it is important to note that infrastructural development in service delivery areas funded from Grants amounting to R69.98m will still proceed as planned. The overall capital budget is increased by 15.4% to R140 851 010 when compared to the original budget for the previous year.

1.7. OVERVIEW OF BUDGET RELATED POLICIES

The Finance Directorate regularly embarks on a process of reviewing all financial related policies. All financial related policies are then tabled to Council for approval when the budget is finally approved by Council on or before end May of each year, and the 2012/13 budget preparation should not be different to other years. Several policies have to be reviewed. Processes to complete this and to submit for Council approval will be followed.

1.8. OVERVIEW OF BUDGET FUNDING

The sources of funding the municipality's budget include inter-alia (i) Electricity charges, (ii) Water Charges, (iii) Sewerage Charges, (iv) Refuse Charges, (v) Property Rates and a big portion also originates from (vi) Grant Funding. The high dependence on grants could signal some challenges in cases where the municipality fails to receive such grants from relevant authorities. The bigger portion of grant funding is the Equitable Share which is unconditional by nature and followed by conditional grants such (i) Municipal Infrastructure Grant and (ii) Neighborhood Development Partnership Grant (NDPG). The conditional grants can be utilised only for their sole purpose (or in terms of the Division of Revenue Act), whilst the unconditional grants can be used at the discretion of the municipality.

The Division of Revenue **BILL** for 2012 / 13 was made available immediately after the Minister of Finance (Mr Pravin Gordhan) delivered his budget speech early this year in Parliament, and the indicative grants or subsidies to be received by Makana Municipality in the forthcoming financial year are as follows: -

GRANT FUNDING – 2012 / 2013 (As per Division of Revenue BILL)

TYPE OF GRANT	2012 / 2013 ALLOCATION (As per Municipal Financial Year)	2013 / 2014 ALLOCATION (As per Municipal Financial Year)	2014 / 2015 ALLOCATION (As per Municipal Financial Year)
Equitable Share	**63 592 000**	**68 127 000**	**73 212 000**
Financial Management Grant	**1 500 000**	**1 500 000**	**1 750 000**
Municipal Systems Improvement Grant	**800 000**	**870 000**	**950 000**
Municipal Infrastructure Grant	**29 490 000**	**31 109 000**	**32 908 000**
Councillors Remuneration (part of Equitable Share)	**3 410 000**	**3 858 000**	**4 930 000**
Integrated National Electrification Programme (Eskom) Grant	**80 000**	**1 693 000**	**2 695 000**
Neighbourhood Development Partnership Grant	**20 000 000**	**14 270 000**	**0**
Expanded Public Works Programme	**1 000 000**	**0**	**0**

Electricity Demand Side Management Grant	**6 000 000**	**0**	**0**
TOTAL	**125 872 000**	**121 427 000**	**116 445 000**

These figures will be confirmed by National Treasury through the Division of Revenue Act when it is enacted into law before 1st April 2011 (commencement of the fiscal year).

The Revenue Budget for 2013/2013 of R286 967 498) will be funded from own revenue (R216 258 498), MSIG (R800 000), Equitable Share (R67 002 000), FMG (R1 470 000), and MIG (R1 437 000).

The funding of the Capital Budget can be illustrated with the following table:

FUNDING SOURCES - CAPITAL BUDGET					
	2012/2013			**2013/2014**	**2014/2015**
AFF	27,867,000			63,978,000	13,416,300
GRANTS:					
MIG	28,030,500			29,553,550	31,262,600
NDPG	33,071,000			14,270,000	-
FMG	30,000				
DME	6,000,000				
DBSA LOAN	43,000,000			-	-
DWA	2,852,510				
	140,851,010			**107,801,550**	**44,678,900**

The escalating increase in the debtor's situation is worrying more so when the government departments are also owing the municipality a sizeable amount.

Efforts were made recently by Provincial Treasury to assist the Municipality in identifying deposits made that will result in reducing a portion of the arrear debt from government departments. The debt collection rate at present is about 75% which indicates that for every R1 billed there's a likelihood that R0.25c will not be collected.

1.9. SALARIES AND ALLOWANCES PAYABLE TO COUNCILLORS AND SECTION 56/7 EMPLOYEES

The upper limits for Councillors for the 2012/2013 financial year have not been approved by the MEC yet after it was resubmitted due to adjustments that needed to be made. As a result, both current salaries and councillors allowances were merely increased by 6% from 2012/2013 levels.

1.10. BUDGET RELATED RESOLUTIONS

The final budget resolution forms part of the actual item to Council for the approval of the IDP and Budget documents for 2012/13 financial year.

1.11. MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I, N.L. Baart (Ms), Municipal Manager of Makana Municipality, hereby certify that the Annual Budget (2012/13 to 2014/15) and supporting documents have been prepared to the best of our ability in accordance with the Municipal Finance Management Act and the regulations made under this Act.

NAME: N.L. BAART (Ms)

MAKANA MUNICIPALITY (EC104)

SIGNATURE: ……

DATE: ……